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1. Since the Communist occupation of Kwangtung, the economic situation in the province has in general deteriorated. Business is poor, and no immediate prospects are apparent for better earnings, not only for the merchant and middle classes but also for the workers. Home-grown foodstuffs are scarce and expensive, and imported commodities, both raw materials and consumer goods, are beyond the reach of the majority of the people although foreigners with harder currencies can obtain anything they wish. Prices continue to rise, although incomes do not; the workers are continually called upon to emulate Soviet and Manchurian labor idols who have set Stakhanovite records, yet their earnings in terms of consumer goods do not increase in proportion to their increased production. All these factors result in some openly expressed dissatisfaction and sarcastic comment on the new regime. This, however, does not denote any relaxation of political control or any specific effective opposition.
2. When the Hunan winter wheat crops were unusually small, food shortages in South China were expected, but hopes were placed on the rice crop, which was estimated to be good. The Peiping government, however, allocated the exportable Hunan surplus to Central China relief, which it considered more important than Kwangtung. The spring production in Kwangsi is expected to cover provincial needs but may not produce a surplus, especially since guerrillas and remnants of Nationalist armies are causing havoc in the countryside and civil disturbances and bandits have caused additional damage in many districts. Kwangtung, which survived in the post-war years only because of imports of rice from Hunan, Kwangsi, and Thailand, has many rice fields not in cultivation and is quietly awaiting a rice shortage, especially in the western and southeastern coastal districts. Many of the large landowners and their tenants were reluctant to sow rice because of frequent army exactions and heavy taxes in kind.
3. Owing to losses in cane last year, sugar cane plantations have been reduced about fifty percent, and most sugar factories in Kwangtung have been forced to suspend operations for lack of supplies. Silk districts report poor working and high taxation, which they have little success in avoiding. Although

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tung oil outputs were high, transportation difficulties are so great that the price has risen even on the rice and gold scale. In Ho Hsien (111-31, 24-23), tin mines are largely inoperative, and high labor and processing costs are forcing smaller mine operators out of business. Coal mines in northern Kwangtung are producing about a third of their rate in spring 1949, because of guerrilla depredations and poor transport.

4. In the manufacturing field, private owners are finding profitable operation increasingly difficult. Government-owned plants, which are not concerned with profit, are operating as well as conditions permit. Rubber goods, cigarettes, matches, and native paper production are about the same as under the Nationalists, and weaving mills, which have plentiful military orders, are working to capacity. Some industries have greatly deteriorated: cement works, for example, are suffering losses as demands for construction materials decline. The embroidery industry of Swatow has been hard hit, both by the blockade and by decreased interest in the United States, and is at about sixty percent of its last year's level. Canton's handicraft industries such as ivory carving have faded out with the virtual cessation of foreign orders, since local demand is negligible.
5. Wholesale trade in the large cities such as Canton, Wuchow, and Changsha is very low because of heavy taxation and pressure for subscriptions to government loans. Retail sales remain normal but are making usually about enough to cover their overhead. More trade is handled by state agencies, as private dealers find official competition too strenuous and suffer from shortness of funds. There is still a considerable amount of cargo smuggled into Canton from Hong Kong and Macao, but the decline of public purchasing power makes sales difficult.
6. Although the Hong Kong dollar is officially banned, it is still in regular use, especially in Canton and South Kwangtung. It is handled with some secrecy, but all large commercial transactions are based on it. Merchants have no confidence in the stability of the JMP, and the common people, who at first expected it to be reliable, are becoming disillusioned as it is constantly depreciated. Compulsory conversion of Hong Kong dollars into JMP has yielded about eleven million Hong Kong dollars to the government, which is being used to finance imports. A very openly operated black market still flourishes in foreign exchange.
7. As note printing increases and the public is aware of it, a serious financial crisis appears to be developing. Velocity of money circulation is higher, hoarding of commodities, gold, and foreign exchange is greater, and there is a strong tendency to refuse to accept JMP. Although the authorities are trying to combat inflation by attracting more overseas remittances through allowing high premiums over the official exchange rate, by popularizing the parity savings deposit scheme, and by compelling the well-to-do and some less prosperous citizens to purchase victory bonds, official assurances inspire no confidence. The situation was acute enough to cause payment of salaries to Communist party workers and members of the Canton garrison in ration coupons instead of JMP in January, while non-party members were paid in notes.
8. The number of well-to-do persons is declining, partly through emigration to Hong Kong and elsewhere, partly through depletion of funds through taxation and public subscriptions, and partly through self-denial, as many wealthy citizens hide their funds and live modestly to escape Communist demands.

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9. The most urgent immediate problems of South China are food supplies and the ending of the war. Rehabilitation cannot be started while the national emergency continues and supplies and interests are diverted to war aims. Moreover, if famine is to be avoided, imports of rice must be procured from the other provinces or from outside the country.

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